



## Fitch Affirms CenturyTel's & Embarq's Ratings on Acquisition Announcement

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Fitch Ratings-New York-28 October 2008: Fitch Ratings has affirmed the long-Term Issuer Default Ratings (IDRs) of CenturyTel, Inc. (CenturyTel) and Embarq Corporation (Embarq) at 'BBB-'. A list of ratings follows below. The Rating Outlook for both companies is Stable.

On Oct. 27, 2008, CenturyTel and Embarq announced a definitive agreement whereby CenturyTel will acquire Embarq in a tax-free, all stock transaction. The terms of the transaction call for CenturyTel to exchange 1.37 shares for each Embarq share and the price represents a 36% premium over Embarq's closing stock price on Oct. 24, 2008, and an 11% premium over Embarq's average closing stock price during the past 30 trading days. The enterprise value of the transaction is \$11.6 billion including the assumption of \$5.8 billion in Embarq debt. The transaction multiple on a last twelve month basis as of Sept. 30, 2008, is 4.5x before synergies, and 3.9x after full synergies are achieved. Following the close of the transaction, Embarq's shareholders will own 66% of the company, and CenturyTel's shareholders will own 34%. Eight of the 15 member board of directors will come from the board of CenturyTel, and seven from the board of Embarq.

The transaction is expected to close in mid-2009, following the receipt of shareholder and customary regulatory approvals. The companies estimate approvals will have to be obtained in approximately 16 of the 33 states in which the combined company will operate.

Leverage, pro forma and before synergies is approximately 2.3x on an last twelve month (LTM) basis for Sept. 30, 2008, sufficient in Fitch's view to maintain investment grade ratings. Pro forma leverage after synergies is approximately 2.1x. The company has not set specific leverage targets for after the close of the transaction, although Fitch notes that the company intends to maintain investment grade ratings. CenturyTel has obtained an \$800 million financing commitment, which will be used to retire the amount outstanding on Embarq's and CenturyTel's credit facilities. There are no other change of control provisions triggered in the debt of either company.

On a pro forma basis the company is targeting the payout of approximately 50% of free cash flow in the form of dividends. This level is similar to the recent policies of the two companies.

The combination results in a large rural local exchange carrier, with 8 million access lines, 2 million broadband customers and operations in 33 states, with pro forma revenue of \$8.8 billion and EBITDA of \$3.8 billion. The enhanced scale of the company provides greater flexibility as it considers such strategic growth areas as Internet protocol television (IPTV) and wireless data services. In addition, the combined company will have greater financial flexibility to manage through upcoming regulatory reforms (universal service funding and intercarrier compensation).

The company believes it can achieve a total of \$400 million of annual synergies within the first three years of the close of the transaction, and \$275 million in integration expenses are forecast. The largest portion of the savings (\$300 million) are operating cost savings, which arise from the elimination of duplicate headquarters and corporate costs, increased network and operational efficiencies, increased purchasing power, and savings in IT support and advertising. An additional \$30 million of capital spending savings is expected to come from increased purchasing power. Fitch believes that while there is execution risk present in meeting the operating cost and capital synergies, the risk is relatively low based on industry experience. On the other hand, in Fitch's view the company's revenue synergy targets of \$75 million are subject to greater uncertainty.

Fitch affirms the following:

- CenturyTel
- Long-Term IDR 'BBB-';
- Senior unsecured revolving credit facility 'BBB-';
- Senior unsecured debt 'BBB-';
- Short-Term IDR 'F3';
- Commercial paper 'F3';

- Embarq
- Long-Term IDR 'BBB-';
- Senior unsecured notes 'BBB-';

--Bank facility 'BBB-';

Carolina Telephone & Telegraph (CT&T)

--Long-term IDR 'BBB-';

--Debentures 'BBB-';

Embarq - Florida, Inc. (EFL)

--Long-term IDR 'BBB-';

--First mortgage bonds 'BBB-';

The Rating Outlook on all entities is Stable.

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